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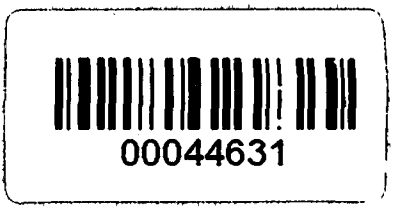

with the Author's respectful

As the pretence of protection to domestic industry by excluding foreign produce, sinks into the earth through the simple fact that all which is given by it to one kind of domestic industry is taken from some other, so the pretence of benefit to trade by increasing the quantity of circulating medium, fails through the fact that what can be bought and sold with each particular portion, falls in exact proportion to the increase of the whole.—*Catechism on the Currency*, § 39.

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CATECHISM

ON THE

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CURRENCY.

By the Author of the "Catechism on the Corn Laws."

Thompson, T. P.

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PREFACE.

THE principles supported in the following pages have been before the public for four-and-twenty years; but what has been taken from such sources has been what may be called *re-written*, by which at all events its dimensions have been considerably reduced.

If there sometimes appears an unnecessary minuteness on points which everybody thinks he knows, the conclusions in other parts will be found dependent on the establishment of these preliminaries. As an instance, the consequences of a Paper Currency are entirely inferred, from what is assumed to have been established in the easier case of Coins.

There is decidedly no popular, any more than royal road to the subject of Currency. Not that it is, after all, more complicated than many others. But it requires patience, with a determination to begin at the beginning, and not to expect in the first five lines the solution of the question whether the Act of 1844 ought to be broken in upon.

T. Perronet Thompson.

Blackheath, London. 21 *Jan.* 1848.

A CATECHISM ON THE CURRENCY.

1. WHAT do you mean by Currency?

Answer. Anything which the inhabitants of a country are in the habit of handing from one to another as the instrument of purchase or exchange.

2. What is the earliest mention of currency?

A. In the 23rd chapter of Genesis, *v.* 16, where Abraham is recorded to have purchased a field for a burying-place, with silver by weight. "And Abraham weighed to Ephron the silver, four hundred shekels of silver, current with the merchant."

3. What is the characteristic property of the substances employed as currency in the early stages of society?

A. That they are what everybody is known to covet, on the ground that though he may not want to use or consume them himself, the persons can never be far off who will be glad to give him in the way of trade anything he *does* want in exchange for them, either with a view to using or consuming them themselves, or to sending them as merchandise to be used or consumed in some other place or country.

Hence in various times and places, silver by weight, gold-dust, bars of iron, webs of cloth, slaves, oxen, furs, hides, corn, salt, nails, eggs, have been found used as currency.

4. At what rate would any substance, as for instance corn, be received as currency?

A. Any man may know, who will take a bushel of corn with him, and try what he will get for it from his butcher or his grocer. He will not get as much of their wares as they would be willing to give for a bushel of corn in the corn-market, if they took their wares there to buy for the wants of their families. He will get only at the reduced rate, which may be described as being what would be given by a dealer who buys to sell again, with a further full deduction for the trouble, expense, or risk, which might attend on sending it to such a dealer.

Hence it would be a mistake to think, that if a bushel of corn, taken into the market as currency, would buy an ell of cloth, an ell of cloth, taken in the same manner into the market, would buy a bushel of corn. It would buy less; each commodity in turn, passing at the reduced rate described.

5. Who would furnish the substances to be thus passed at a reduced rate?

A. Every man who found it more convenient to part with a portion of his commodities at this reduced rate, than to go without what he wanted to purchase.

It may be observed, that the loss is not one which is to be perpetually repeated; because, after the substances are once set a-going as currency, they are received at the same reduced rate that they are paid away. Hence the expense of furnishing these substances at the reduced rate, may be considered as finally falling upon each individual once and no more, and in proportion to the quantity of them he is in the habit of employing. The whole currency may be viewed as a tool; which, like every other tool, must be paid for by the users, for the sake of the advantages finally derived.

6. How would the substances so used as currency, be prevented from ever being too many?

A. If any man had more than he wanted to use as currency, it would be his interest to stand in the market with them as goods for sale, or send them to somebody who would.

7. What was the first great improvement in currency?

A. The first step has universally been, the almost total abandonment of other substances in favour of the precious metals by weight, so soon as the access to them was sufficient for the purpose.

The reasons for preferring the precious metals, are evidently their carrying the greatest worth in the least weight and compass, their durability, divisibility, and the fact of their quality being ascertainable by methods within the compass of moderate skill and cost. All of which constitute so many premiums upon their use.

There may always have been localities where from particular causes other substances continued to be to a certain extent in use; as Adam Smith (*Wealth of Nations, B.* 1, *Ch.* 4) relates that in his own time nails were used as currency in a village in Scotland. But the main fact has always been as stated.

8. What was the next great improvement?

A. So soon as any settled and extensive governments were formed, it could not fail to be observed that much expense and trouble would be saved by forming the precious metals into masses of which the weight and fineness should be authenticated by the outward appearance, and that to do this with most effect, the issue must be undertaken by the governing power. Which is the invention of *Coins.*

9. How would the government provide the first coins?

A. If the taxes or other revenues were paid in the precious metals, it would take a portion of what were so received, and cause them to be fabricated into coins. Or if the taxes were received in other substances, it would exchange these for metal, to be treated as before. And the coins when made, it would take into the market to purchase what it might desire, or else (as is a favourite way with modern governments) lend them at interest to those who would take them into the market instead of the government.

10. At what rate would the coins be voluntarily received in the market, at the outset of the issues?

A. It seems inevitable that the quantity of goods voluntarily given for them, would either at once or as soon as there had been time for men to compare notes together, be greater not only than what would be given for the metal contained in them, but than the sum of this and of what would be a compensation for the expense and trouble of weighing and assaying. For if the expense and trouble of weighing and assaying each coin of, for instance, a quarter of an ounce of gold, be taken as equivalent to the thousandth part of an ounce of rude gold (or what in modern language might be called a pennyworth), it is plain to begin with, that everybody would willingly receive the coin for as much as he would receive a quarter of an ounce of rude gold, and the pennyworth besides. But as soon as men were familiar with the fact that the coin when received at this rate would be paid away at the same, it would be every man's interest as much as ever (so long as there was any competition for being paid in coins instead of metal by weight) to bid a pennyworth more; for he would as much as ever save it by escaping the expense and trouble of weighing and assaying. And so on. Hence in the early stages of the issues, what would be voluntarily given for the coin in the market *would rise and rise.* And it would do so till one of two things happened;—till either the issues were extended sufficiently to put an end to any competition for being paid in coins in preference to other substances,—or the anxiety to procure coins by bidding the pennyworth more, was counterbalanced by the fear that from some cause or other the market rate of coins might be shaken before they were out of the receiver's hands. Hence there would be a height to which the power of a coin to purchase in the market in the early stages would rise, and a height to which it would not; and it is a tolerably safe conclusion that it would rise higher in a country where considerable security and order were enjoyed, and less in one of a contrary description. But as it must be a very unstable and beggarly state of society indeed where it would not rise by enough to pay the expense of coining and a fair profit besides, it may be taken for granted the government would find its early issues profitable, and would increase its issues accordingly.

If the principle on which the power of purchasing of the coins is here assumed to rise, should appear paradoxical, it will be found on examination to be the same with which the mercantile world is familiar in the case of what is called an *Agio.* The best history of an Agio is given by Adam Smith (*Wealth of Nations, B. 4, Ch. 3*) in his account of the Bank of Amsterdam. A particular kind of paper called "Bank paper," had advantages in being secured against loss by fire and robbery, and in other ways; and the consequence was that it rose in marketable power, sometimes by *nine* per cent. On which the Bank wisely resolved to increase the issues so as to keep it from ever rising above *five*, which may be concluded to be what the Bank considered a fair profit for the trouble of issuing and managing the concern. But it is unreasonable to suppose that the naked worth of the security against fire, robbery, &c., was ever anything like nine per cent; on the contrary it was probably never more than a half per cent, or what may be called a penny in the pound. Inasmuch, however, as this pennyworth of advantage was equally to be made by the obtainer of the paper, whatever was the known market rate at which it was expected to be passed again, there was a competition for obtaining the paper by bidding a pennyworth in addition to the known market rate, as long as the quantity in circulation was not sufficient for all who wanted it without.

N.B. By "issues" of anything are always meant "new issues," or additions to the total number in existence; but not "re-issues" of what may be returned to the government in discharge of taxes. It is necessary in one way or other to be clear on this point; and this is the clearest in the end.

11. How would the government find funds for rapidly increasing the number of coins?

A. There could never be any difficulty in finding funds. The government might take the whole of the taxes as they came in (whether paid in substances other than coins, as must be the case before coins were in extensive use, or partly in coins and partly in other substances, as might be the case afterwards), and exchanging all of these which were not rude metal, for metal in the market, might fabricate this metal into coins, and issue them with a profit as described. And if this was not fast enough, it might repeat the process of exchanging for metal and coining, as often as it pleased, with accumulating profits, before it applied the results to its ordinary expenditure. So that there is no positive limit to the rapidity with which the process might be gainfully carried on, if there is a sufficient quantity of metal within reach of purchase.

12. What would be the consequences of continuing the issues of coins?

A. For a time the rate at which the coins would be voluntarily received, would go on at that elevated pitch which the circumstances formerly described should have allowed it to attain. But if the issues were persisted in, a time must come when the coins in circulation, passing at this elevated rate, would make the supply what may be called *complete*, or enough to allow every man who wished it, to employ coins as his medium of exchange instead of other substances.

13. In whom would be the property of these coins after they were received?

A. Clearly in the receivers, or those to whom they may transfer them; in other words, in the holders. No man has received one from the government without at the time giving the government what it chose to accept in return; the coin therefore is as much the property of the first receiver, as anything else he may have brought away from the market. He has paid for it and the government has not; for the government has never been at any expense at all about the matter, even the expense of coining having been returned to it with a profit. And if the coin was the property of the first receiver, it is equally that of the person to whom he transfers it. It is true that as fast as the coins are introduced into circulation, a corresponding portion of the substances formerly used as currency will be restored to their pristine uses, by the holders or on their account. But this does not alter the fact that the holders of the coins paid for them when they got them; and they had paid for the other substances too. All talk therefore about the coins being the government's, or the king's, is only a fiction of law like that which calls the highways the king's; and means only that the king or the government is the organ for looking after them.

14. After the supply of coins had become what has been called complete, at the elevated rate, what would be the consequences of increasing the issues?

A. The power of the coin to purchase in the market would decrease, and to such an extent as would render the total number no more than was required to make the supply complete.

For example, if when the supply was complete at the existing market rate, a twentieth part more were issued, what would be given for the coin in the market would fall in the proportion of twenty to twenty-one, or in other words the prices of things in general, paid in coins, would rise in the proportion of twenty-one to twenty, or by 5 per cent.

15. How would this reduction in the power of the coins to purchase, be brought about?

A. By the agency of the same causes as make every other article exchange for less when the quantity in the market is increased.

If the number of coins in circulation was increased in the proportion of twenty-one to twenty, it follows that in some way or other twenty-one must be brought to market where there were twenty before; for no other use can be made of the coins, inasmuch as returning them to the uses of rude metal would be attended with palpable loss on account of the elevation of the rate. But in such a state of things it is as plain that the coins must exchange for less than they did, as that wheat must exchange for less if through some sudden cause twenty-one quarters were brought to market where there used to be twenty. The moment the sellers of commodities in general, the precious metals among others, take note of the increased number of coins brought into the market with a demand to buy, their first thought will be to ask higher prices. And they will not only ask, but they will obtain; not perhaps all at once, nor to the extent on which they might possibly set their minds, but they will succeed in raising money prices. One buyer after another will consent to give more, to avoid the loss and disappointment of going away empty-handed; and as nothing can effect a cessation of the cause but the reduction of the twenty-one coins to the purchasing power of the twenty, the process will be going on till this reduction is effected. The holders of the coins may complain, as corn-dealers may complain when disappointed of their expected prices by an unexpected influx of corn into the market; but whether they complain or not, they must submit as the corn-dealers do. And by the contrary process, the purchasing power of the coins would go up, if the number in the market were diminished, or the extent of the market increased.

16. What would be the consequences if the issues of coins were further increased?

A. A time must come when what will be given for the coin in the market, will be no more than would be given for the metal contained in it, and a compensation (including a fair profit) for the expense of coining. And at this point, a prudent government would cease from further issues of coins.

17. What would determine the number of coins which would bring their market rate to this state?

A. As noted before, the leading elements would be the extent of the community and of its commercial transactions. A large community would *cæteris paribus* require a larger number than a small one, and an industrious and peaceful community than a barbarous and disturbed one. Hence if any change took place in the circumstances of the community in these respects, a corresponding change would take place in the number of coins required to bring their market rate to the point described. If the extent or the circumstances of the community improved, a demand for a greater number of coins, showing itself in a fall of money prices, the price of gold included, would be the result. And if they should retrograde, the number of coins in circulation would be more than were wanted at that rate; the consequences of which may be referred to the next paragraph.

18. What would be the consequences of still further increasing the issues of coins?

A. If the government, moved for instance by some idea of a stimulus to commerce to arise from increasing the circulating medium, should determine to throw away and lose the expense of coining, a time would soon come when what would be given in the market for the coins would be no more than would be given for the rude metal contained in them, or for an equal quantity. And if the government, through mistake or obstinacy, should still increase the issues, it is plain that, on the same principles as before, what would be given in the market for the coins would come to be less than would be given for the metal contained in them,—or there would be a premium upon restoring the coins to the purposes

for which rude metal is in request. The consequence of which would be, that so soon as the difference was sensible, coins would begin to go into the melting-pot, in spite of all that anybody could do to hinder it; and the plan of the government for stimulating commerce by multiplying coins, would fail like a plan for accumulating water in a sieve, for the coins would run out as fast as they ran in.

In the preceding, the coins have for simplicity been supposed to be made of the most valuable metal present, which is ordinarily gold. For when coins of different metals are in use, those of the cheaper materials often act as little more than counters for reckoning the fractional parts of the others, and in consequence are not amenable in all respects to the same rules.

19. After the use of coins became general, what was the next great alteration introduced into currency?

A. The employment of paper documents; of which there have been various kinds, but it will be useful first to consider such as are issued by a government with a view to being used as ordinary currency, or what in England would be called Government Bank-Notes. And it will further conduce to clearness, if the issue of these is supposed to take place at the period when exchanges have come to be conducted by means of the precious metals by weight, and the effects of coins being also in use are calculated afterwards.

20. What would be the consequences if a government, at a period when exchanges had come to be mostly conducted by means of the precious metals by weight, should begin to issue paper billets with a certain quantity of some desirable substances specified in each, as for instance a quarter of an ounce of gold of an assigned fineness, engaging to receive the billets for the same in discharge of taxes, and further to give the specified quantity of gold for the billet at any time upon demand?

A. If the government's word was trusted, it would be plain that in the outset these billets might be safely taken in the market for at all events as much as the specified substances would be taken; for there would always be somebody at hand who would receive them at that rate to pay his taxes with, and at the worst it would only be to carry them for payment upon demand. But it would soon be discovered that the billets were an advantageous instrument for conducting exchanges in general, as well as for paying the taxes with; as saving in all cases the expense and trouble of weighing and assaying metals, and making further economies in point of transport and otherwise. The government therefore, on first taking them into the market or so soon afterwards as there was time for their nature to be understood by the public, might reasonably expect the billets to be received, as in the parallel circumstances of coins, for something more than the substances specified in them, or as mercantile men express it, bear an Agio. But as the government would make a clear gain of all that it obtained in the market for the issues of paper, it may be held certain that the issues would be rapidly increased, till by the same steps as in the case of coins, what would be given in the market for the billet was reduced to what would be given for the substances specified in it if produced there as currency instead. But if after this the government should go on increasing the issues of paper, what would be given for the billet in the market would, as in the parallel circumstances of coins, be made to fall below what would be given for the substances specified in it, and which are engaged to be returned upon demand. The immediate consequence of which would be, that billets would begin to be brought in with a demand for payment; for the substances promised in payment will purchase more in the market than the billet will. Which would go on till the billets left in circulation were reduced, as in the parallel circumstances of coins, to the number called for by the extent and commercial condition of the community when each billet passes in the market for the same that would be given for the substances specified in it.

21. What would be the consequence if the government at this stage should refuse to pay on demand as promised, and go on increasing the issues of paper?

A. What would be given for the billets in the market would go on decreasing below what would be given for the substances specified in them; which is what is called *depreciation*. The depreciation might be temporarily increased by the effects of panic arising out of the refusal of payment, in so far as the panic might work an actual reduction in the demand for the employment of the instrument of exchange. But it would be a mistake to think that the whole machine would go to pieces. People thought so when the Bank of England stopped payment in 1797; but they found they were wrong. Bank of England notes were not sent to the trunk-maker, nor did the man who had one in his pocket go without a dinner, though the Bank had "repudiated" its engagement to pay in gold or in anything else. Nor was there even any remarkable depreciation, until the subsequent courses taken by the Bank gave cause for it which could not be resisted.

The issues made after such refusal to pay upon demand, may be called *superfluous* issues; and the amount of what is given for them to the government will be abstracted from all the holders of the billets in the country, by the diminution of what will be to be bought with the billets in the pocket of each.

22. What would be the results of continuance in such a course?

A. What would be given in the market for each individual billet, would be reduced in the same proportion as the number in existence was increased. The further results of which would be, that if there were such things as fundholders, mortgagees, lessors, or annuitants, these would be paid with what had been made to be of less worth to them than what they had contracted for. The government therefore would begin to make a dishonest gain from the fundholders, by paying them with pieces of paper bearing on their faces words indicative of a certain quantity of substances contracted for, but which the government by its refusal to keep its promise and by its subsequent issues, has purposely made to be worth less than that quantity. And while the government was doing this, it would only have to see that the taxes were laid

ad valorem instead of being fixed in nominal amount, to prevent any of its gains from the fundholders being balanced by loss upon the taxes. For example, if the duty on a pipe of wine worth 50*l.* without duty, was 10*l.*, the government would only have to secure the former form of words instead of the other, and then if through the depreciation the price without duty came to be 60*l.*, the duty would be 12*l.*, which is worth the same to the government as the 10*l.* was before.

If it should be urged that the government's plan would be embarrassed by an outcry from the tax-payers to have their billets received by the government for the present worth of the substances specified in them, the answer is that the government would find ways of evading or putting down such an outcry. Fancy a tax-payer in 1814, when gold bought with the government's paper was 5*l.* an ounce, opposing a demand from the tax-gatherer for 5*l.* and attempting to stop his mouth with the assurance, that the bargain was that the notes should be received by the government at the rate of three pound-notes and the small change of 17*s.* 10½*d.* for the ounce of gold, and therefore the present claim ought to be satisfied by the same.

23. What differences would have been made, if coins had been in use during these operations with the billets?

A. So long as the coins and billets together were not more than were wanted for circulation at the rate at which the government had promised to pay the billets on demand, they would go on circulating quietly in company. But as soon as they were more, their numbers would begin to be reduced by the two ways at once, of coins going to the melting-pot and billets being brought in for payment. But when payment of the billets was refused, the coins only would go out of circulation, because the billets could not. And as the issues of billets went on, the coins would be entirely driven out, with the exception of the hoarded. [There might arise the phenomenon known by the name of "two prices," if the coins were there; but they would not be there. Any of the hoarded which should appear, would be instantly hunted down for the melting-pot.]

24. What would be the other results of a depreciation as described, if continually increased?

A. First, a detriment to the working classes in the shape of a continually increasing reduction of their substantial wages, and a corresponding advantage to their employers. Just as if the movement was in the contrary direction, and what would be given for the paper in the market was continually increasing, there would be a continual advantage to the working classes and disadvantage to their employers. For there must always be an advantage to the side which is gaining by the change in the substantial worth of the existing money wages, and a disadvantage to the side which has to contend against it. Depreciation means rising money prices of all a working man has to buy. And a working man does not like to hear of rising money prices, if he knows his money wages will not rise in proportion.

Secondly, while it is impossible to see how any substantial improvement to trade can arise out of increasing the number of the component parts of the currency and diminishing the purchasing power, nothing can be imagined more likely to lead to mistakes, tending to make men find themselves in the condition of what is called *over-trading*. A tradesman receives 50*l.* where he only expected 49*l.*; what then more natural than that he should conclude that things are going well with him, and that he is bound to take advantage of the favouring gale, and in some way or other spread more sail? He therefore either spends his extra receipts on some pleasure which he would otherwise have denied himself, or on some increase to his ventures and his business which he would otherwise have thought imprudent. And when he has learned by hard experience that his supposed prosperity was moonshine, and his 50*l.* were only in truth worth 49*l.*, he is left to struggle with the consequences.

25. After the government had made a gain from the fundholders by refusing to pay upon demand and increasing the issues of paper, could it by any contrivance make it a profitable speculation to itself to buy the billets up again, and finally return to cash payments or paying the specified substances on demand?

A. Yes; if at the proper moment it could to a certain extent change the mode of laying the taxes, from taxes *ad valorem* to taxes fixed in nominal amount.

Put what does not appear an unreasonable case. Suppose the billets in circulation to be forty millions, the number progressively returned for the annual taxation the same, of which half shall be required to pay the fundholders and others who must continue to be paid with the same nominal amount; and let the proposal be that the government, instead of re-issuing all the billets received for the taxes, shall at the beginning of the first year burn two millions of them. And first, let it be supposed that *the whole* of the taxes can be changed to taxes fixed in nominal amount. The result of the supposed diminution of the billets, will be to increase what will be got in the market for the billet in the proportion of 20 to 19, or in round terms 5 per cent. The fundholders &c. will continue to be paid with twenty millions of the billets as before, to their great satisfaction at finding the billets worth more to them than they used to be. After which, what will remain applicable to the purposes of the government will be eighteen millions of billets, but increased in purchasing power by 5 per cent, or in round terms as good as nineteen millions of the original. The government therefore will at the beginning of the first year have given up and lost what could have been got in the market for about one million of the original billets. But in the course of that and every succeeding year, the forty millions of billets received for the taxes will be found increased in purchasing power by 5 per cent; of which billets, half will go to the fundholders &c. as before, and the other half will give a gain to the government equal to what would have been got in the market for one million of the original billets. So that what the government will have done, will be to have given up one million the first year, with the result of receiving cent per cent per annum for it for ever. And by following the same track it will appear, that if the government was only able to cause eleven-twentieths of the taxes to be changed to taxes fixed in nominal amount, its substantial loss at the beginning of the first year by burning the two millions of billets, would be equal to what might have been got in the market for one million nine hundred thousand; in return for which it would in the course of that and every succeeding year make a gain equal to what could have been got in the market for one hundred thousand of the original billets, being in round terms 5 per cent for ever, which is ordinarily considered a good invest-

ment. Hence the change of any portion greater than eleven-twentieths, would make not only a good investment but a rich one. And if more of the billets were burned at the beginning of the following year, a new set of results of like kind would arise, and must be added to the other; and so on. Light therefore is thrown on the possibility of the reduction as well as the augmentation of a paper currency being a profitable operation to a government, if it has a little money to spare in advance, and can depend on the acquiescence of the tax-payers in seeing the taxes changed from taxes *ad valorem* to taxes fixed in nominal amount, which is a thing vastly too subtle for tax-payers in general to trouble their heads about, though nothing is clearer than that the whole is to be finally done at their expense.

26. Under an honest system, who would gain the difference in cost between a gold and a paper currency?

A. For every billet issued by the government and not brought back for payment, the amount of what was received for it in the market must be in the hands of the government, and a corresponding quantity of the metal formerly employed as currency would be dropped from that employment by the holder who found the billet the preferable thing to go to market with, and would be restored to its pristine uses by himself or on his account. So that the phenomenon presented, is that of a community doing through the organ of its government, what could not so well be done by every man for himself, viz. substituting a cheap tool or instrument for a dear one as an individual might substitute glass drinking-vessels for his silver, and finding the difference of the cost lodged for its own use and benefit with its organ which is the government[;—a highly important advantage, yet not to be confounded with expectations of infinite gain]. If the community were asked how it would like to have this difference employed, it is probable that if there was the interest of a public debt to be paid out of the taxes, there is no way it would prefer to having it employed in buying up a portion of the debt, and remitting to the community a corresponding portion of the taxes. But whatever might be fixed upon, it is as clear as in the case of the glass which should be substituted for silver, that the difference belongs to the owner of the dearer article, which is the community, and ought to be applied to the use of the community and of nobody else, as much as the proceeds of the taxes which may be lying in the Exchequer. This is clearly as things ought to be; and may therefore make a useful point of comparison for things as they may happen to be.

27. Is the promise to pay on demand, a security against depreciation as long as it is kept?

A. It may be set down as being so. But the danger always is, that it will not be kept. It will be kept when there is no strong interest of anybody's to the contrary; but it is not so certain it will be kept when there is. In fact the evidence hitherto collected is, that in such circumstances it will not.

28. Is there any other method of preventing depreciation and consequent fraud?

A. There is the method of preventing the issues which would cause depreciation. A few years ago it might have been dangerous to press this point; because there was no possibility of hindering men from crying out "inconvertibility," and proceeding to confound a power which should prevent the necessity for conversion, with a power of unlimited issue. But in consequence of the attention of late attracted to the subject, great numbers of intelligent persons have got possession of the fact that an inconvertible paper currency is not identical with an unlimited paper currency, and that it is precisely because it is to be limited, that its convertibility is not wanted. It is wise therefore to go into the question, to prevent these persons from being claimed by the clamourers for an unlimited paper currency. The grand want is to keep the purchasing power of the note or billet to some given standard, or as nearly so as can be effected by human art; which, as far as hitherto known, is to be done by making arrangements to secure its being always capable of purchasing in the market as much as would be purchased by a given quantity of some assigned substance, for which purpose the choice of mankind has generally fallen upon gold, though if anybody thinks anything else would make a better standard, he is at liberty to prove it. Payment on demand may be one way to compass this result; but it is evident there is another, which is to prevent the issues from ever going to the point which would make the purchasing power of the note or billet fall below the appointed mark. The public mind is not made up on this point; but it is on its way towards it.

29. What would be the way to prevent the issues of paper from going to the length which would cause it to be depreciated?

A. [If the standard, for instance, were decided to be gold, the way would be to authorize by Act of Parliament the issue of new billets, *only upon evidence* laid before Parliament,—or if such delegation is considered safe, the Privy Council,—that the market price of gold, as paid for with the billets, was below a certain price, which may for distinctness be called the standard price, and which as at present and in times past fixed, is 3*l.* 17*s.* 10½*d.* per ounce. Upon which evidence, *and in no other circumstances*, authority should by the same Act be given, to issue new or additional billets,—to the number indicated by multiplying the number previously in circulation, by the vulgar fraction expressed by the fall below the standard price divided by the actual price,—*and to no greater.*]

It might on examination prove desirable, that the fall of price to be established by evidence should be a fall on the averages of some specified number of weeks or months, and that it should be of not less than some specified amount. But these considerations are distinct from the general principle.

30. What would be the security for the maintenance of this plan, compared with the plan for making payment on demand?

A. It could not be less; and might be more. A ministry that on the idea of necessity, well or ill founded, would think of infringing the one, would probably think of infringing the other. The strength of the security for either, must ultimately depend upon the magnitude of the reasons why it should not be infringed, and the public's familiarity with those reasons.

31. What are the visible advantages and disadvantages of the two modes of limitation?

A. 1.—In the case of limitation by payment on demand, it is necessary to have a reserve of gold, as the only way of being sure of making the promised payment if a crisis should suddenly arise. Thus in England in 1847, it appeared that by what is called the Act of 1844, the quantity of paper which might be expected to be retained in circulation under all shocks to be reasonably calculated upon, was stated by a sort of guess at fourteen millions sterling; and it was enacted that for all the paper ever issued above fourteen millions, gold coined or uncoined to the same amount should be in the Bank cellars to pay it with if asked. If what was substantially received for the fourteen millions of paper by the government was honestly accounted for to the public, the public may so far be content; though there would remain the question why the fourteen millions were not as many more as they might have been, if care had been always taken to give the public the benefit which might have been derived from the substitution of paper for metallic money. At all events the Act of 1844 appears to have been intended to be on the side of caution; for in 1847 the gold in the Bank cellars under the Act was found to be in round terms eleven millions. But under the other mode of limitation (with reservation of all future inquiries as to what might be the consequences in times of crisis or otherwise) these eleven millions would not have been in the Bank cellars, and the paper would have been issued by the government and in the hands of the public as much as ever. The plain English of the whole therefore is, that the eleven millions of gold, instead of being something it was found necessary to reserve out of the proceeds of the paper and lock up in a cellar, would have been millions applicable to the substantial service of the public, as for instance to buying up eleven millions of the public debt, and relieving the public (supposing the funds to be paying 3½ per cent) of taxes to the amount of 385,000*l.* per annum, a rich prize either for those who can save it or those who can get it, and worth looking after by a Chancellor of the Exchequer who has his wits about him. A Manchester merchant would look very oddly, if told that it was a requisite to his trade that the firm should reserve eleven thousand sovereigns and lock up in a cellar; and if governments felt like Manchester merchants, they would find out the clumsiness of the proceeding too. It is evidently a rough, rude, and semi-barbarous notion of policy, which cannot conduct a paper currency without saying, "Take these eleven-million pounds worth of gold, and see them well casked and marked and lettered, and then let them be stowed away in a dry cellar, and looked at now and then, to see that nobody has run away with them, and the casks have not gone to decay." On this head therefore, the limitation based on the market price of gold, appears to have the advantage to the amount of eleven millions.

2.—Deposits of gold of this kind, in addition to their cost, are impolitic in a country which desires to hold out no encouragement to political commotion. And no country can say that such danger shall not arise. England, for example, is in the habit of pluming itself on being a settled country; yet no more than ten years ago (in 1838) it was clear from evidence adduced before the House of Commons, that there was a system for forming Orange Lodges in the army, the visible object of which was to try the possibility of changing the Succession in favour of arbitrary principles. It came to nothing. But had such a change been attempted and with temporary success, the first object of the seizer of the throne must have been to lay his hands on money for current purposes; hence if eleven millions of gold had been found in the Bank cellars, the first thing a sensible usurper would have thought of, would have been to put a stone into its place and declare Bank of England notes inconvertible. And if to this he had thought of adding an issue of twenty millions of one-pound notes, he would have been a made man, as far as money could make him. There would have been a little panic, as there was when the Bank of England declared the notes inconvertible in 1797. But, as was the case then, it would soon have been found out that the panic, as regarded the commercial consequences of all that had as yet been done, was needless, and that if the usurper had only the sense not further to increase his issues, the stone did just as well as anything else. [Every mob too, when it gains a certain height, calls out "To the Bank!" The columns of an invading army would step out to the same cry; and it might be interesting to know, how many millions each of the reported millions in the Bank has in this way cost the country in increased necessity for defence.] On grounds of this kind therefore, the limitation based on the market price of gold appears also to have the advantage.

3.—It is not clear that, even in the extreme case of an unsuccessful war in which the enemy got possession of the capital, a paper currency which had never been anything but inconvertible, would not be the safest of the two. A high degree of panic would be among the attendants on such a misfortune; and it is highly probable that the check given to the employment of the circulating medium would be made visible by a diminution in what could be got for it in the market, or in other words a rise of prices, the price of gold among others, which would continue till in one way or other affairs became more settled and commerce returned to its ordinary course. But it does not appear that anything would be mended by having in addition a run upon the Bank, arising out of an engagement to supply all the panic-stricken with gold upon demand. If men want gold to help them to run away from an invasion, let them buy it at the shops which sell it; but there seems no more reason why the government should engage to furnish them with gold for this purpose, than why it should engage to furnish them with great-coats. Take the instance of 1745, when the Pretender was at Derby. The demand on the Bank for gold was a channel made and provided, for the public panic to run in and accumulate. It was by a mere turn of the scale, that the Bank escaped stopping payment; and if it had stopped, nothing was more likely to have given a turn to the counsels of the enemy, the consequences of which it is impossible to assign. It is difficult to maintain, that at that critical moment the Hanoverian succession would not have been safer, with a currency always known to be inconvertible.

4.—The disadvantages which may be alleged against an inconvertible currency of the kind described, may be admitted to be:—

That there is danger of its being confounded with an unlimited currency.

That there may be doubts about the practicability of maintaining the prescribed limitation.

That a successful invader might declare the paper currency null and void.

In alleviation of which may be represented, at the hazard perhaps of some repetition :—

That the preservation of the distinction between an inconvertible and an unlimited currency, must depend on the spread of information among the community who are to abide by the consequences.

That the principle of payment on demand has nothing to trust to but the same spread of information; and what might secure one, might secure the other.

That a successful invader would know a better thing than declaring the currency null and void; which would be to get as much of it into his possession as he was able. And in all events nothing would be gained by giving him the chance of what deposits he might find in the Bank cellars, and of declaring what he chose upon the subject of the currency besides.

32. If the issuing of paper was limited to occasions when the market price of gold paid in paper had fallen below a certain mark, would it not be proper to make provision also for the absorption of a quantity of paper when the price of gold should rise above it?

A. The question is whether there would be any practical necessity for making provision for such a process. We put tucks in children's frocks to provide for letting out when they grow taller, but we do not go to the trouble of making any provision for their growing shorter. And the reason is, that children are in the habit of growing taller, and not of growing shorter. It is the same with commercial communities. Even though there should be occasional periods when there was a tendency to retrograde, it seems certain that these must be rapidly over-ridden by the general tendency to increase, and the use for currency increase along with it. At the same time, it would be easy to make the experiment with all due caution, by reserving the cellared millions till it should be seen whether there was any practical necessity for making provision for buying up paper or not.

33. What would have been the results if at the several stages alluded to, billets with a promise to pay on demand had been issued by private individuals?

A. If issued before the introduction of coined money, then to the extent that they continued in circulation without being brought back with a demand for payment of the substances specified, they would cause a corresponding portion of the substances in employment as currency to be returned to their pristine uses, and the issuers would make a gain of all that had been received for the paper at the time of issue.

If they were issued at a period when the circulation had come to be completely supplied with coins, the effects would be the same; coins to an amount corresponding with the paper retained in circulation being sent into the melting-pot. And these effects might by possibility go on increasing till this kind of paper occupied the whole circulation; but they could not be extended to the production of depreciation, because depreciation could not take place without causing the paper to be carried back with a demand for payment, and if payment was refused, the paper would no longer circulate, except as it might sometimes change hands as is done when a bad debt is set up to sale.

If they were issued after the introduction of coins, and when the government's issues of billets had begun, the private billets would act as so many rivals of the public ones, each billet of either kind equally driving a coin into the melting-pot; with this marked consequence, that for every billet of the private paper, a gain to the amount of the coin driven out of circulation by it would be found in the hands of the private issuer instead of the government. And this might go on till all the coins were driven into the melting-pot, with the exception of what might be hoarded as before, leaving the field entirely occupied by paper of one kind or other.

If at this period the government should break its promise to pay, but leave the private issuers under legal obligations to pay in gold, then as soon as a depreciation became sensible, the notes of the private issuers would be driven in with a demand for gold, and it would not be till they were entirely driven in, that the depreciation would increase. But if the government made one of its own billets legal tender in payment of one of a private issuer's, then there would be no reason why the private paper should be driven in, and both kinds would go on together, increasing the depreciation in proportion to the quantity jointly issued.

On an estimate of the results of the process of which the refusal of payment by the Bank of England in 1797 was the beginning, the conclusions arrived at were, that between 1797 and 1814, the government (on the supposition that the taxes were laid *ad valorem*) gained from the fundholders the substantial amount of 37,251,550*l.* 11*s.* 2*d.*, and from the holders of the circulating medium through what was received by the government for the superfluous issues of paper, 3,544,652*l.* 16*s.* 11*d.*, making together 40,796,203*l.* 8*s.* 1*d.*, and the private bankers received for their share of the superfluous paper 5,085,805*l.* 19*s.* 7*d.*, making the whole loss of the public 45,882,009*l.* 7*s.* 8*d.* (See Westminster Review for January, 1824.) The calculations, like all others, may be open to contest; but they at all events point to large gains having been made, and to there being no want of data on which calculation may be founded.

If it is asked why the government allowed five millions to be carried off by the issuers of private paper, when means might apparently have been contrived to bring them into its own coffers, the answer seems to be, that the bankers had strong means of resistance. They must evidently have been of all men the best informed on the nature of the process going forward; and to have had them in opposition in their quality of bankers, would never have been got over. Fairs and markets would have rung of the extracted millions, as they afterwards rang of the omnipotence of credit and the blessings of an extended circulation; and a tribune would have been erected in every country town, which no statutes could have silenced. And besides, to have left the private bankers bound to pay in gold, would have been laying the axe to the declaration of Bank of England notes being legal tender, and raising a world of dangerous speculation how the promise of a pound on demand could mean one thing to one contractor, and another to another.

34. In what then ought the business of a private banker to consist?

A. In lending his own money, as the London bankers do [; including the deposits which people find it convenient to confide to him]. But not in lending money which he takes from the public, as is done when private paper is issued for the purpose of being lent.

On this point there are signs of progress towards amendment. The Bank Act of 1844, manifestly treats the issuing of private paper, as what it would willingly suppress.

35. What are the inferences as to the mode in which a government ought to conduct the issuing of its paper?

A. That it should have an Office for issuing and receiving paper (it may call it a Bank if it will), in the same manner as it has a Victualling Office for issuing and receiving beef and pork. There need be no more mystery or complication about one than the other; and all that is mystery or complication, may be looked on (to take the most favourable view) as the legacy of worse times which a wise government will mend when it is able. The officers and directors of such an institution should be paid by distinct salaries, and nothing else, in one case as in the other. And as in the case of a Victualling Office the worst of possible inventions would be to compose the directors of salesmen and provision-dealers, who were to be partly paid by allowing them to take portions of the public beef and pork and sell or let them out at interest, so in the case of a Bank for the issue of public paper the worst possible invention would be to allow the directors to take from time to time a handful of the paper they are to fabricate and issue, and apply it to their own use by lending it to such as are willing to pay them interest for it. Or if anything could add to the badness in these several cases, it would be that the government should borrow money from the directors of its Victualling Office, or be found speaking of a "Debt due by the Public to the said Governor and Company" in the case of its paper-money arrangements.

On this point also, there are signs of progress towards amendment. The division drawn by the Bank Act of 1844, between the "Issue of Promissory Notes" and "the General Banking Business of the said Governor and Company," with the requirement that the one "Department" shall be "separated, and thenceforth kept wholly distinct from" the other, has an ominous resemblance to dividing the sound half of an apple from the unsound.

36. How is the operation of lending chiefly carried on?

A. Neither the lenders of public nor of private paper find it so convenient to lend it upon interest to be afterwards from time to time received and during extensive periods, (though this may be done in some instances), as to lend it for a short period, as for instance three months, receiving in return a bill engaging to repay at the end of such period, which if not performed, involves the bankruptcy of the defaulter. And the interest for this stipulated period is demanded at the time of lending instead of afterwards, being in fact deducted from what is given to the borrower; which is the reason why instead of being called interest it is called *discount*, and the operation of so advancing money or paper for bills is called *discounting* them. So that in the case where public paper is created for this purpose, the practice amounts to giving the favoured persons an order on the pockets of all the holders of the circulating medium, or else upon the deposits reserved for the purpose of paying the public paper on demand, the interest going to the conductors of the process as part of their pay or perquisites of office.

37. What was the probable origin of allowing the trade of a money-lender to be united with the direction of a public currency?

A. It is very likely to have been partly done in imitation of the private bankers, who find the discounting of bills the readiest way of pushing their paper into circulation. But there can be no doubt that the main reason of its being permitted and persevered in, has been the idea that such advances of paper were a proper method of assisting trade, joined to a notion of benefit to arise to trade from increasing the circulating medium.

38. How is the lending of public paper to assist trade?

A. If a trader in difficulties could obtain from the government permission to take a shilling a-piece from all the travellers on the Great Northern Railway, there could be no doubt of its tendency to relieve him from his difficulties, and of the eager desire which numerous other traders would exhibit to be allowed the same privilege. But it is doubtful whether either government or public could be found to determine that this was increasing national wealth, or assisting trade. In the same way, if a single trader can persuade the government to create a quantity of new notes and give to him, the worth of them being at the same time taken, not from the travellers on the Great Northern, but from all the holders of the circulating medium in the country by the depreciation of the portions of it in their respective pockets, or else out of the deposits formed out of the taxes, there is no doubt of the comfortableness to the individual, nor of the great number of other individuals who will be eager to come in for a share of the privilege. But the question of how this is increasing national wealth or assisting trade, is precisely where it was in the case of the railway.

39. How is increasing the circulating medium, after depreciation will be the result, to be productive of benefit to trade?

A. If it were proposed to reduce the yard-wand to thirty inches, everybody would be conscious that, putting out of the question the effects on those who might have yards of cloth to send away and none to receive, or *vice versâ*, the effect on trade in general would be absolutely null. So plain is this, that in the cases where governments have interfered to introduce new measures of any kind by statute, nobody has ever dreamed of supporting it on the ground of benefit to

trade, to arise from the measures being either greater or less than before. There might be some uneasiness from the innovation on one side, and some contemplated advantage in the way of fixedness or uniformity on the other; but nobody ever thought of predicting public prosperity from the measures being less, or from the opposite. If a man buys by a diminished measure, he will receive more of them, and give more of them when he sells; and the contrary. So that in respect of any general effect on the proceedings of commerce, the result is null.

Precisely of the same nature will be the result with a currency, from increasing the number of its component parts while what each of them will buy is diminished in the same proportion. Setting aside the effects on those who are bound by old contracts, such as fundholders, mortgagees, lessors, and annüitants,—and the abstraction of every man's share of what was given for the superfluous paper,—to the ordinary operations of commerce the result will be as completely null as in the supposed shortening of the yard-wand. If a man in trade has money to receive, he has also money to pay away; and if he should be led into any exultation at seeing his receipts increased in nominal amount in consequence of a depreciation in the currency, his pleasing error would be corrected by the sight of the opposite side of his ledger, where he would see himself obliged to pay away in precisely the same augmented proportion. So plain is this, that there is no tradesman in town or country, who, if his clerk brought him the information that he had sold goods for twenty-one bank-notes instead of twenty, but it was in consequence of the notes being depreciated 5 per cent,—would not laugh in the face of any man who should congratulate him on his good fortune. He would know that if he had book-debts which he could pay with the depreciated pounds, the odds were that he had also debts to receive which would be paid him in the same. And beyond this he would know that the consequences to himself would be limited to his folding up twenty-one pieces of paper instead of twenty, and writing 21 instead of 20 on both sides of his ledger. As the pretence of protection to domestic industry by excluding foreign produce, sinks into the earth through the simple fact that all which is given by it to one kind of domestic industry is taken from some other, so the pretence of benefit to trade by increasing the quantity of circulating medium, fails through the fact that what can be bought and sold with each particular portion, falls in exact proportion to the increase of the whole.

40. What are the dangers which may arise from a mistake on these points?

A. It will at some time come to be a question, whether the substantial cause of the continually recurring complaint of commercial distress, is not imprudent trading; and whether the greatest imaginable stimulus to imprudent trading, is not created by holding out recourse to the public manufactory of paper, as a refuge for the destitute or thoughtless. There can be no doubt that this would be voted true, if the request was to be allowed recourse to the passengers on the railway. And the question may come to be further asked, whether the habit of constant anticipation by means of borrowing on bills, is not something like insisting on doing next quarter's business in this, and whether prudent commercial men ought not to see the seeds of constant danger in such a system.

41. What was the nature of the dispute on the maintenance of the Bank Act of 1844, which led to Parliament being called together in the winter of 1847?

A. The Act provided that, beyond a certain number, no notes should be issued by the Bank but in exchange for gold coin, or gold or silver uncoined. But when the commercial distress came on, the Bank was besieged by individuals begging to be helped by giving them notes, which were in fact to be loans of the public money to help them through their difficulties. The government pressed by the outcry, and actuated no doubt by a knowledge of the prevalence of the belief that access to the public money was a legitimate source of relief to traders in distress, undertook the responsibility of breaking the Act, but at the same time clogging the execution by a direction that the breach should only be extended to such persons as would pay a heavy discount (8½ per cent), and that the interest should go to the public instead of the managers. But by the time the case came before Parliament, the government had arrived at the knowledge that the relaxation of the Act under the terms proposed had been inoperative, and that in fact no breach of the Act had taken place. Whereupon nobody pursued them further for their illegal intentions.

42. What is the earliest mention of anything of the nature of paper currency?

A. A passage in the treatise attributed to Plato under the title of "Eryxias," seems to show that the Carthaginians had a leather currency.

'For example, those Carthaginians use a currency of this 'kind. In a little bit of leather is tied up something generally of the size of a gold ounce; but what 'it is that is tied up, nobody knows except the doers. After which they put a seal upon it, and use 'it as money. And he that has the most of these, is held to have the most wealth and be the richest 'man. But if anybody among us had ever so many of this kind of thing, he would be no richer 'than if he had a number of the pebbles from the hill*'.

The seal spoken of, to make the thing feasible, must have been the stamp of either a public or private bank, which it was punishable to counterfeit.

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* αὐτίκα γὰρ οὗτοι καρχηδόνιοι νομίσματι χρῶνταί τινι δι. ἐν δερματίῳ μικρῷ ἀποδίδεται, ὅσον τι στατῆρος τὸ μέγεθος μάλιστα. ὅ, τι δέ ἐστι τὸ ἐναποδεδεμένον, οὐδεὶς γινώσκει, εἰ μὴ οἱ ποιοῦντες. εἶτα κατασφραγισμένῳ τούτῳ νομίζουσι. καὶ ὁ πλεῖστα τοιαῦτα κεκτημένος, οὗτος πλεῖστα δοκεῖ χρήματα κεκτῆσθαι. καὶ πλουσιώτατος εἶναι. εἰ δέ τις παρ' ἡμῖν πλεῖστα τοιαῦτα κεκτημένος εἴη, οὐδὲν ἂν μᾶλλον πλούσιος εἴη, ἢ εἰ ψήφους πολλὰς τῶν ἐκ τοῦ ὄρους ἔχοι.—ERYXIAS. *Plato Aldi.* II. p. 401.

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43. What is the answer to the objection:—
That to limit the issues as described, is to fix the price of gold.

A. There is no use in fighting about a name. Let it be settled, if anybody likes it, that such a limitation shall be called fixing the price of gold. But it is nothing but what is equally done in a gold currency conducted upon reasonable principles. In that case, the market price of gold, paid in coins, would always be as near as the art of man could make it to a fixed quantity,—to wit, to the coins which were equal in weight to the gold to be bought, with a small deduction of fixed rate from the coins, to answer to the cost of coining. But if nobody ever dreamed that this was, in any harmful sense, fixing the price of gold, the objection in the other case is of no greater avail.

It therefore lies with the opponent to prove, that there are advantages in a system of currency which *does not* involve fixing, in this sense, the price of some substances or other.

44. That a gold standard is not a fixed standard after all.

A. It is fixed enough for the purpose wanted; and by the general consent of mankind, better adapted for the purpose of a standard than anything else. To demand a standard that shall be incapable of variation in all times and circumstances, so far as at present known or established, is in the Spanish proverb "asking for better bread than is made of wheat." The only two kinds of substances likely to compete for being employed for a standard, are the precious metals, and some great necessary of life, as corn. And the difference between them seems to be precisely this;—that one varies in comparison with other things from century to century, and the other from year to year or from month to month. There seems therefore little room for hesitation between the two. If it were put to the vote, very few would be found to see any convenience in a currency whose estimation in the market a year hence was to depend on a good or bad harvest. An alteration a century hence, is at all events a less urgent inconvenience; and history and experience have made us acquainted with the remedy where these remote alterations are feared, which is to vest the contemplated payments in what is called a corn rent. It does not appear what remedy there would be in the other case, unless it were vesting in a gold rent; which is tantamount to resorting to a gold standard.

45. That the standard ought to be made by a comparison of general averages.

A. Who can look after a comparison of general averages? There is trouble enough in looking after one.

Fancy people going to law on the fulfilment of a contract, and a jury having to decide *on a comparison of general averages.*

[The uncertainty attaching to such a standard, would produce greater evils than any it is to cure.]

46. [That the origin of all our panics is the taking of one variable commodity as the standard of issue.]

[*A.* The effect of alterations in the worth of currency from this cause, must be the same as if they proceeded from changes in the quantity. Hence the results must be null or nearly so, except upon old contracts. *See* § 39.]

47. [That our gold will be bought for exportation when it is cheap, and imported again when it is dear; and so Jews make fortunes by us.]

A. [Why do you sell them your gold but because you gain by it? Why do you buy it again but because you gain by it? You behave very silly about your gold, if you do not.]

[The mistake is in not seeing, that in commercial exchanges both sides must gain, or the thing would not be done. A member for Bristol once rose and demanded, that a trade in lean cattle from Ireland should be stopped. For, said he, the Irish would not do it unless they gained by it; and if they gain, Bristol must lose.]

[*A* at Oporto has wine worth ten ounces of gold at Oporto. *B* at London has cloth worth ten ounces of gold at London. *A* and *B* exchange; and each sells what he gets, for fifteen ounces. This is the principle of commercial profits; and not that what one gains the other loses.]

48. That to prevent the price of gold from ever rising, is to tie down the tax-payers to a perpetual sacrifice.

A. If the tax-payers pay too much, let them help to demand that taxes shall be taken off. But do not let them seek relief by a method which involves the derangement of old contracts, and the consequent robbery of one side.

49. That the taxes ought to be reduced, and 30 per cent taken from the payments to the fundholders, who would then be in the same situation they were before.

A. This is the fraud which should say, that when a portion of relief reached a ship's crew on short allowance, three-fourths of the crew should divide it among themselves, on the ground that the others would be in the same situation they were before. The fundholders have as good a right to a share in any diminution of taxation, as anybody else.

50. That the fundholders ought to be sacrificed for the public good.

A. If every man had a share in the dividends equal to what he pays towards them in taxes, it would be plain that no public good could arise from such a sacrifice. And it is equally plain that no aggregate good could arise from it as things are.

51. That the fundholders are people of whom it would be a public benefit to make an example.

A. This, upon examination, is the opposite of truth. Incomparably the greater portion of the funds are the investments of honest industry, for the use of the workers or their representatives.

52. That the fundholders have been overpaid.

A. There never was a greater mistake; unless it is intended to reckon with the fundholders for all that any of them have had too much, and take no account of what any of them have had too little.

Mr. Mushet published in 1821 "A series of Tables exhibiting the Gain and Loss to the Fund-

holder, arising from the Fluctuations in the value of the Currency. From 1800 to 1821. London. Baldwin and Co. 1821." In these the gain or loss was estimated by comparison of the price of gold as bought with Bank of England notes at the time when the debt was contracted, and at subsequent periods. But the calculation was made at simple interest only; and by an extraordinary fatality, in the last operation of the calculations the error was made of taking the proportion of a certain sum (12*l.* 13*s.* 7*d.*) to its difference from 100*l.*, instead of to 100*l.*; the consequence of which was to show a balance against the fundholders at simple interest 5 per cent. The deficiency and the error were corrected by Mr. John Childs of Bungay, in Tables published in the Westminster Review for April 1833, article *Equitable Adjustment*. Mr. Childs's corrections showed a loss to the fundholders even at simple interest 5 per cent; but when the calculations were made at compound interest made principal half-yearly, as justice plainly demands, the result showed a loss to the fundholders in the aggregate, of 422,093*l.* per annum. So that a debt worth in the whole nearly eight millions and a half if interest is taken at 5 per cent, and upwards of twelve millions if it is supposed to have fallen to 3½, is owing to them, and likely to be.

53. That debts contracted in paper have been paid in gold.

A. This is only another form of the last, or of part of it. It lays hold of the fact that *some* of the debts, viz. those contracted after the depreciation had begun, were finally paid in a better currency than the debt was contracted in. But it takes care to overlook the fact, that if those who were paid too much, and those who were paid too little, are clubbed together, the result is that they have been paid too little by at least eight millions and a half.

54. That it was not the paper that was depreciated, but the gold that became scarcer.

A. Whether it was one or the other, the contract was to pay in gold; unless anybody believes that the promise to pay to Abraham Newland or bearer on demand the sum of One Pound, meant a promise to pay a one-pound note with a one-pound note.

55. That the fundholders had no moral right to expect to be paid in gold in full, when gold had become scarcer.

A. There was no provision on either side, against gold either becoming scarcer or more plentiful; each side agreed to take the chance. If gold had become more plentiful, the fundholders feel sure that nobody would have come to ask them to take more. Therefore the asking them to take less, is like an underwriter's coming to say, "The ship is lost, so you cannot expect me to pay; if it had come into port, I should have taken the premium and you would have never heard of me."

56. That when everybody complains of want of money, to make more money must surely be the remedy.

A. The newspapers used to be full of advertisements of a "Vegetable Syrup," which was extolled for "sweetening the blood." On which somebody sarcastically said, "What *will* sweeten the blood, if treacle-and-water will not?"

The same mistake as there would be in concluding that treacle-and-water would sweeten the blood, is in believing that when people complain of want of money, the remedy would be in making coins or notes. The man that wants money, wants the means of raising money; but he will raise no more though bank-notes were doubled in number and two went in the place of one.

57. That scarcity of money is the bane of commerce.

A. By scarcity of money is meant a scarcity of people willing to lend money. Which, whether it be the bane of commerce or not, is a different thing from a scarcity of coins or notes.

58. That money ought to be made cheap.

A. If this means that a saving may be made by using a cheap material like paper instead of a dear one like gold, and the difference of cost be put to the public account, this has been attempted to be impressed already.

But if it means that bills ought to be discounted at the public expense, it might as well be argued that the Bankrupt List ought to be put down by application of the Consolidated Fund.

[If by "cheap" is meant "of little worth," the answer may be referred to the next paragraph.]

59. That we want a cheap currency, in order that everybody may be able to get it.

A. A Cambridge scholar wanted to entertain economically; so he went to a spirit-dealer in the town and said, "Can you let me have some cheap brandy?"—"O yes, sir! can let you have very good at 18*s.* a gallon."—"Can you let me have none cheaper?"—"O yes, sir! can make it as cheap as you like, *with the pump in the yard.*"

So it is with currency. All the cheapening of currency is to be *with the pump in the yard.*

60. That there ought to be free trade in money, as in everything else.

A. If any professing free-trader utters this, ask him if he can lay down to you the reasons why free trade in respect of foreign commodities is beneficial; and if he can, then ask him which of those benefits he discovers in what he calls free trade in money, which means allowing individuals to take as much as they please of the public saving, on condition of finding the paper.

Why should there be free trade *in the people's* money? Why is there not to be free trade in the tar and pitch out of their dockyards? The issuing of private paper is not a *trade*, nor *industry*, in any sense but as the terms might be applied to the trade and industry which should consist in employing carts to wheel away the public stores for private use. Free trade may be a good thing, but this is free-booting. It labours under the original vice, that all the subject matter of the trade that is to be, is to be taken from the owners.

61. That the saving from paper money is equally given to the public by the system of private issues.

A. This depends on whether a few hundred bankers are the public. It would not be admitted if they were asking to wheel the provisions out of the Victualling Office.

It is possible to imagine a community saying to its government, "Take the gold which we have paid for, and give us paper instead, and let us see the difference of cost set down to our account." But it is not possible to imagine a community saying, "Take our gold, and give it to a few hundred bankers, who shall let it out to us at interest, and we will thank you all the same."

62. That there ought to be an end of Bank monopolies.

A. Why not as well say, there ought to be an end of Victualling Office monopolies? The currency is just as much the public's and was paid for by it, as the beef and pork in the Victualling Office.

63. That paper money can never be so safe as gold. He that has gold, has that which will serve him in all times and places,

A. It is a question of comparison. One way to ensure the goodness of a bond, would be to give it on a plate of gold of the worth of the property concerned. But it will not be generally thought necessary to carry caution to this length; though the security of parchment may be less.

64. That the Americans have given up issuing public paper.

A. Private banking in America is Lynch law. There may be no denying something else to be for public good; but there is not the power to enforce it against private interests.

65. That the Scotch resist interference with their issues of private paper.

A. It is possible they would resist interference with their wheeling away the beef and pork out of the Victualling Office, if they had got into the habit of it. It only proves that the feeling of private interest is more powerful than in England, and of public less. And there is this additional circumstance, that what they take, comes out of the purse of a richer nation; which is apt to be felt as a convenient thing.

66. That nobody seems agreed to what extent bills of exchange, cheques, and other inventions for effecting exchanges, act as currency or do not.

A. If it were of importance to know the particulars, it does not seem difficult to form an estimate. If a cheque for 5*l.* changes hands once and no more, and a bank-note for 5*l.* changes hands once every day in the year, it seems reasonable to conclude that 365 such cheques on successive days, will act upon the currency to the same extent as the one bank-note. And the same with bills of exchange, or anything else which in consequence of the small number of hands through which it passes, may be considered as possessing the quality of currency in a low degree.

But it does not seem important that these particulars should be scrupulously ascertained, if there is a way of always knowing their sum. A householder is not anxious to ascertain the gas consumed in each apartment of his house, if he has a gasometer or tell-tale which always tells him the sum. The market price of gold would be such a tell-tale.

67. That we want the small notes.

A. It is not easy to say why the government should not issue them; unless through apprehension of multiplying forgeries. Except for this reason, it is not easy to say why twenty millions of sovereigns now in circulation should not be replaced by one-pound notes, and the amount applied to deducting 700,000*l.* per annum from the most obnoxious of the taxes. And truly twenty millions is a heavy price to pay for keeping rogues out of harm's way; especially since the capital-punishment has been done away.

68. That traders want high prices. And to multiply currency is the way to make high prices.

A. Traders want high prices; but not prices consisting of more pieces worth less in the same proportion.

69. That private enterprise has been promoted by the issues of private paper.

A. It is as if individuals should be allowed to set up a toll on the Great Northern, and then point to the results and say, "See what prodigious improvements, arising out of the grand discovery of raising money by tolls."

All the benefits, for instance, arising from the permission of the small notes in Scotland, were nothing but allowing certain Scotsmen to take part of the public millions to lend to their customers, and then show off the results as public gain. If a Scottish farmer or manufacturer has flourished through the process, some English one has suffered for it.

70. That the currency bears some known proportion to the whole productive industry of the country (as, for instance, in 1819 it was estimated at one-tenth). Hence, if the government diminished the currency five millions, they altered the whole income of all the farmers, land-owners, and manufacturers of the country, to the extent of fifty millions.

A. Not if the purchasing power of each portion of the currency increased in proportion to the diminution of the quantity. For then the currency would be precisely adequate to conduct the same exchanges as before.

71. That there must be a power of regulating the currency according to the wants of trade.

A. The market price of gold would be the index of trade's real wants. Anything else, is only an index of the wants of traders begging to be allowed access to the public chest.

72. That everybody knows the currency to be insufficient.

A. Setting aside the effects upon old contracts and the loss of what is given for the superfluous issues, there is practically no such thing as a currency being insufficient. For the worth of each of its component parts will rise or fall, to the exact height required to make it perform its office. All solicitude, therefore, about the currency being insufficient, is like being solicitous lest the survivors of a tontine should be inadequate to the division of the capital.

73. That the government ought not to have the power of putting on the screw.

A. There ought to be no screw to put on or take off. Honest men will never have their own, till such phrases as putting on the screw, tightness in the market, scarcity of money, monetary convulsion, contracted circulation, drain of gold, are confined to the avowedly predatory classes.

74. That it is a good thing to have thirty millions in reserve.

A. A million a-year which is the interest, is a heavy price to pay for such a fancy; and the thirty millions had better be fructifying in the pockets of the owners. Besides which, there is the danger of their being laid hold of, for some bubble panic or insane adventure, for which money would never otherwise be got. An American president wants money for his crusade for extension of the cart-whip, and not daring to ask for taxes, he has recourse to an issue of twenty millions of dollar notes. [A Weekly Newspaper proposes to lend the Irish landlords thirty millions of one-pound notes. Which is doing the self-same thing prognosticated from a sensible usurper, in § 31.]

[If the object is to have a reserve of gold, as for instance to purchase corn, there seems no more reason why the government should keep a reserve of this kind, than why it should keep a reserve of coffee or anything else which might be a favourite with foreigners. If people want bullion, let them buy it of the bullion-dealers at home and on the continent. The difference of price will never amount to the expense of keeping a constant stock.]

75. That a gold standard could never be maintained in time of war.

A. Why not? But if the first thing to be done in case of war is to rob the fundholders, at all events let the fundholders take the alarm, and resist war.

76. That no man would be bold enough to say that the prosperity of the working classes would not be deteriorated by the abstraction of a portion of the circulating medium.

A. On the contrary, it is an *addition* to the circulating medium that sets the working classes upon a chase after their substantial wages. Setting this effect on one side, it is indifferent to the working classes whether the circulating medium calls itself a hundred millions or one. If it was the last, then on the supposition that the currency is now forty millions, a pound note would stand in the place of a forty-pound note at present, and it would be necessary to have coins or notes (if the present fractional denominations were preserved) for sixpence, to answer to the present one-pound note. And if it was the other, 5*l.* notes would pass and be had, where notes for 2*l.* would find their way at present. But this would be all.

There has been an enormous increase in the quantity of money, and diminution in what it would buy, since the days of Elizabeth. But the working classes never undertook to think they were benefited thereby; though on the other hand they are not simple enough to think that the condition of the working classes was necessarily better because a hen was a penny.

77. That nearly all our social evils are to be attributed to a false monetary system.

A. That the change in the monetary system would be the cure, is what cannot be admitted till proved. Why should not it as well be put forward as a specific against the cholera?

78. That prices ought to be allowed to rise to the level of taxation.

A. What is "rising to the level of taxation"? If the price of a hat without tax is 20*s.*, and a tax of 5*s.* is laid upon it, what is the precise operation meant by "the price rising to the level of taxation"? If by increasing the issues of bank notes, the price comes to be 25*s.* and the tax 6*s.* 3*d.*, what will the hatter have gained for himself, except being paid with twenty-five things called shillings instead of twenty, the twenty-five being of the same use to him as the twenty? But if the plan is that the government shall forget to lay the tax *ad valorem*, then this is trusting too much to the government's simplicity.

79. That the currency ought to consist of "taxation notes."

A. If this means that notes to the amount of the annual taxation ought to be created by the government once for all, and not increased unless on the taxation being increased, this virtually differs from the system described, only so far as the yearly amount of taxation may be a more or less exact representation of the amount of currency required to make the supply complete. But the whole connexion between the rule and the thing to be ruled, appears to be founded on accident and not on reason. For all that is shown, it might as well have been proposed to issue "population notes" regulated upon the numbers of the population; or anything else.

80. [That the currency ought to consist of "labour notes."]

A. [The error on "labour notes," was in believing that things were to be exchanged without limit, because produced by the same quantity of labour. Whereas not this, but the wants of the receiver, are the reason why a thing will be taken in exchange.]

81. That we ought to be emancipated from the yoke of bullion.

A. Every man that does not want to pay his debts, wants to be emancipated from the yoke of bullion. We might as well ask to be emancipated from the yoke of yard-wand.

82. That cheapened money is necessary to enable us to compete with foreigners.

A. It can no more enable us to compete with foreigners than a shortened yard-wand, or than a man's stature could be increased by measuring him with the short yard.

The mistake lies in confounding the stature with the measure applied to it; in believing, for instance, that a battalion may be made into grenadiers, by measuring them with a yard that should be shorter than the present.

83. That if there were two shillings where there now is one, it is plain somebody must have more than he has.

A. More, but not worth more. The private gentlemen of the Life and Horse Guards would rejoice if they were told they were to receive two shillings instead of one; but not if the two shillings were to buy only as much as the one. If that would do for the fustian jackets, it certainly would not for the men who work in scarlet and in blue. The "little shillings" would find small favour in military eyes, unless they would purchase more at the canteen.

84. That the rich man's gold is artificially fenced about that it may not sink below 3*l.* 17*s.* 10½*d.* per ounce, *but where is the fence for the poor man's wages?*

A. The rich man's yard-wand is fenced about that it may not sink below thirty-six inches,—*but where is the fence for the poor man's wages?* There is as much sense in this as in the other. If the poor man's wages are to be looked after, it will be by other ways than shortening the yard-wand.

85. That the States of Guernsey built a meat-market with notes issued for the purpose, and paid them in ten years with the revenue from the market.

A. The States of Guernsey did nothing but set up a private bank of issue for a particular purpose, with the difference that their notes instead of being payable on demand, were to be paid off in a term of years. [What they took, they took from the same place that other private banks of issue take it.]

86. If one-third of the money employed in trade were locked up, or gone out of England, must not the landholders necessarily receive one-third less for their goods, and consequently rents fall; a less quantity of money by one-third being to be distributed amongst an equal number of receivers?

A. This is the celebrated Locke's. It seems to be a mistake arising from overlooking that what would be bought in the market with the money in such circumstances, would rise in the proportion of 3 to 2, and consequently the landholders get what was worth as much to them as before.

87. When prices were continually rising, all the active classes were benefited, and annuitants alone were placed in a worse condition.

A. This is given as Mr. Huskisson's. If there is no error in supposing it to allude to a rise of prices caused by depreciation, the mistake is of the same nature as the last.

88. That it is the iniquitous currency laws that have made millions of paupers by depriving them of their due wages.

A. The same mistake, of believing that men would have been the better for more money that would buy less.

89. That a free-trade in corn, without a free-trade in coin, will squeeze the marrow out of the bones of seven-eighths of our countrymen.

A. Free-trade in coin, means that there shall be liberty to issue paper to any extent, and the working classes be cut down in their substantial wages in consequence.

It may be useful to see what unlimited issues would come to. School-boys have often thought of the convenience which would arise, if the pastrycook would take pebbles for halfpence, and everybody else agree to do the same. The end of which would be, that prices paid in pebbles would rise, till at last the pebbles were taken for just so much a barrow-full, as they fetch in the gravel-pit at present. And paper prices in the same way would rise, till the notes passed for what they were worth as dirty paper.

90. That what is wanted is "confidence."

A. The school-boy wants to see "confidence." When a man of expensive habits is obliged to retrench, the Servants' Hall is loud on the want of confidence, and is confident that if Master would only send his cheque to the bankers, it would be paid as it used to be.

91. That it would be a terrible thing to see our gold go abroad.

A. Why more than our coffee or port wine? We make no scruple in having a transit trade in these when it suits us. And we never have it but when it *does* suit us.

92. That paper money may be issued to any extent, so long as there is a property basis.

A. [Issued, but not continued in circulation, or not without proportionate depreciation. An American lately proposed a paper currency to be guaranteed on *all the land in America;* evidently expecting that the substantial amount which continued to circulate, was to be increased in some proportion to the magnitude of what he would call his *basis.* A particular bank may increase the portion of the field which it can occupy, by increasing its basis. But all cannot make such increase; because the field is limited to what will make the supply complete.]

[If there is to be a property basis, only nobody is to get at it on demand, this makes another story.]. The French assignats were *hypothéqués sur les biens nationaux* (guaranteed on the national estates). But when a man asked for his portion of these estates, he was told he might go and buy them for what his assignats would fetch. All paper money, not kept to some standard, is an *assignat.*

THE END.

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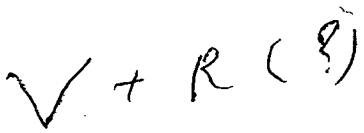

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